



COUNCILMEMBER CARL DeMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: June 22, 2009

TO: Jeff Graham, Vice President – Redevelopment, CCDC

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: New City Hall – Conditions of Exclusive Negotiation Agreement

I am in receipt of the June 19, 2009 memorandum requesting additional input on the conditions for an Exclusive Negotiation Agreement (ENA) on the development proposal to build a new City Hall. While I oppose the project, I request that the following conditions be placed on an ENA should the City Council decide to move forward with negotiations:

1. Accuracy in “Hold Steady” Comparisons

I welcome Mayor Sanders’ commitment made in a June 8th press release that “The project must save the city money every fiscal year compared to Carl DeMaio’s “hold steady” alternative’s costs.” (emphasis added)

As outlined in my June 10, 2009 memorandum to Mayor Sanders (attached), the current “Hold Steady” scenario as defined and modeled by CCDC does not reflect the “Hold Steady” scenario recommended by my office. To fulfill the Mayor’s commitment stated above and to ensure that the financial modeling for this project is accurate and reliable, I request that the City Council is provided with a year-to-year financial comparison between the final redevelopment proposal and a “Hold Steady” scenario that reflects the issues outlined in the June 10, 2009 memorandum.

Here are three specific changes CCDC should make to the “Hold Steady” model:

- **Capital Expenses:** I have recommended reducing the cost for capital improvements in the first 10 years by eliminating City Concourse improvements and/or the use of leased space to temporarily replace the CAR.

- **Lease Rates:** The “Hold Steady” proposal should include the use of a negotiating team to obtain “last, best, and final” lease rates from vacant office space. Those actual lease proposals would then be used in the financial comparisons to the full-scale redevelopment.
- **Comparison of Identical New City Halls:** The “Hold Steady” proposal should presume similarly-sized City Halls and development proposals after Year 10.

2. Upfront Commitment to a Public Vote

The notion of requiring a public vote – thus far endorsed by the Mayor, the Independent Budget Analyst and myself - is not reflected in the June 19 memorandum from CCDC. I recommend that this condition be added to the list and committed to prior to entering negotiations.

Committing to a public vote prior to negotiations will prevent any attempt to arrive at a proposal – to the potential detriment of taxpayers - that avoids triggering a public vote requirement. Furthermore, a public vote commitment provides the public with the maximum amount of protection and participation in a project of such significant financial magnitude.

3. Require an ENA Come at No Cost to Taxpayers

I recommend that entering into an ENA comes at absolutely no cost to taxpayers, with the exception of staff time. Examples of such costs to be avoided include those associated with any changes to design or “break-up” fees.

While I continue to oppose this project, including the above conditions as part of any potential ENA will provide the maximum amount of protection to taxpayers while allowing for maximum transparency and public input.

CC: Mayor Jerry Sanders
Honorable City Councilmembers
Andrea Tevlin, Independent Budget Analyst

Attachments:

(1) June 10, 2009 Memorandum to Mayor Sanders



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: June 10, 2009
TO: Mayor Jerry Sanders
FROM: Councilmember Carl DeMaio *Carl DeMaio*
RE: New City Hall: Exclusive Negotiating Agreement (ENA)

I appreciate your commitment to a public vote on the new City Hall as a condition of proceeding forward with negotiations with the developer. Requiring a public vote on such a financially significant project will ensure that negotiations remain focused on maximizing taxpayer benefit in the deal – and provide for maximum public transparency and engagement in the process.

I also support your position that the project “must save the city money *every* fiscal year” (emphasis added). As I have argued since the emergence of this project, the City’s precarious financial condition requires we aggressively manage city expenditures in the next 10 years as we pay down accrued liabilities and debts.

In your proposed evaluation criteria, you reference a “Hold Steady” proposal, and attribute it to my office. To be clear, this is not a proposal I authored.

As outlined in their report, Ernst & Young did not endorse a specific “Hold Steady” proposal, but rather called on the city to explore alternatives that would allow the city to avoid or delay construction of a new City Hall as part of such an alternative.

Specifically, E&Y recommended that other options, such as exploring the possibility of acquiring “a building in a distressed situation at a price below replacement cost as part of” the Hold Steady analysis be pursued. The E&Y report goes on to state that such options could be “evaluated in conjunction with a short-term Hold Steady Scenario.”

Unfortunately, instead of exploring a wide range of options, the Center City Development Corp. has defined only one “Hold Steady” scenario – and has incorporated numerous flawed assumptions into this scenario. In addition to pointing out these flaws and asking that they be corrected, I have made several recommendations as to what a true “Hold Steady” scenario might look like.

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As your office conducts the comparison to the Hold Steady proposal that you cite in your press release, I hope you will adjust the analysis provided by CCDC for the issues laid out in my previous correspondence – including the following:

- Using two similarly-sized City Halls for the comparison so we have an “apples-to-apples” comparison.
- Backing out capital expenses for improving the Concourse in the next 10 years. The Concourse is only used to house 60 city staff members, and any capital expenses would be wasted after 10 years with planned demolition of this building.
- Adjusting lease rates to reflect probable lease rates afforded the city in this highly renter-friendly commercial lease market. Specifically, I have proposed the formation of a team to negotiate commercial leases and explore two to three other options for the City concurrent with any negotiations for construction of a new City Hall.
- Backing out any revenues derived from land sales to achieve a real comparison between net cost of office space in the comparison years.
- Ensuring that other assumptions, such as financing methods (e.g. tax exempt debt) in the City Hall modeled by CCDC and the one in the redevelopment proposal are similar.

Taxpayers will benefit from the provision of more accurate and comprehensive comparisons from which to cast informed ballots. As I know you share that objective, my office stands ready to assist yours in this regard.

CC: Honorable City Councilmembers